

**BEAR LAKE SPECIAL SERVICE DISTRICT
(A Component Unit of Rich County, Utah)**

**ANNUAL FINACIAL REPORT
AND
OTHER FINANCIAL INFORMATION**

DECEMBER 31, 2005

**GARY H. TEUSCHER
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MEDICAL ARTS BUILDING
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BEAR LAKE SPECIAL SERVICE DISTRICT
ANNUAL FINANCIAL AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005

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GARY H. TEUSCHER
Certified Public Accountant
Medical Arts Building
Montpelier, Idaho 83254

Independent Auditor's Report

Board of Directors
Bear Lake Special Service District

I have audited the accompanying financial statements of the Bear Lake Special Service District, (a Component Unit of Rich County, Utah), as of and for the year ended December 31, 2005. These financial statements are the responsibility of District management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bear Lake Special Service District as of December 31, 2005, and the results of its operations and the cash flows of its proprietary fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the table of contents is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board ("GASB"). I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 15, 2006 on my consideration of the District's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.



March 15, 2006

**BEAR LAKE SPECIAL SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

For the Year Ending December 31, 2005

The following is a discussion and analysis of Bear Lake Special Service District's financial performance providing an overview of the District's financial activities for the year ending December 31, 2005. This report is in conjunction with the District's financial statements.

Financial Highlights

- * The assets of the District exceeded its liabilities as of the close of the most recent year by \$2,518,733.
- * The District's total net assets increased by \$137,684.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements and notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements themselves.

The District reports as a single enterprise fund. Revenues are recognized when received and expenses are recognized in the period in which they are incurred.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are proprietary funds.

Proprietary Funds

The District maintains one proprietary fund, the enterprise fund. Enterprise funds are used to account for operations that financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Financial Statement Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$2,518,733 at the close of the most recent fiscal year.

The largest portion of the District's net assets (73 Percent) reflects its investment in capital assets (i.e. land, buildings, sewer system, equipment, machinery and infrastructure), less any related debt used to acquire those assets that are still

outstanding. Resources needed to repay capital-related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (5 Percent) represents resources that are subject to external restrictions on how they may be used. The restricted balance is for capital projects and debt service reserve accounts.

The remaining balance of unrestricted net assets (22 Percent) may be used to meet the District's obligations to customers, member agencies, employees and creditors.

At the end of the year, the District is able to report positive balances in all three categories of net assets.

Bear Lake Special Service District's Net Assets

| | <u>2004</u> | <u>2005</u> |
|---|------------------|------------------|
| Current and other assets | 658,643 | 902,323 |
| Capital assets | <u>3,826,586</u> | <u>3,692,799</u> |
| Total assets | 4,485,229 | 4,595,122 |
| Current and other liabilities | 9,859 | 9,715 |
| Long-term liabilities | <u>2,094,321</u> | <u>2,066,674</u> |
| Total liabilities | 2,104,180 | 2,076,389 |
| Fund Net Assets | | |
| Invested in capital assets, net of related debt | 1,732,265 | 1,626,125 |
| Restricted | 126,167 | 134,217 |
| Unrestricted | <u>522,617</u> | <u>758,391</u> |
| Total net assets | <u>2,381,049</u> | <u>2,518,733</u> |

Bear Lake Special Service District's Changes in Net Assets

| | | |
|----------------------------|----------------|----------------|
| Revenues: | | |
| Operating Revenues | 369,107 | 464,545 |
| Other Revenues | <u>88,236</u> | <u>130,521</u> |
| Total Revenue | 457,343 | 595,066 |
| Expenses: | | |
| Operating expenses | 419,470 | 449,050 |
| Interest on long-term debt | <u>12,177</u> | <u>8,332</u> |
| Total expenses | <u>431,647</u> | <u>457,382</u> |
| Net Income | <u>25,696</u> | <u>137,684</u> |

The District's net assets increased by \$137,684. Key elements of the increase are as follows:

- * Operating revenues increased due to the extension of the sewer line to the south shore.
- * An increase of growth and demand for services.

Capital Asset and Debt Administration **Capital Assets**

The District's investment in capital assets for its governmental activities, as of December 31, 2005 amounts to \$3,692,799 (net of accumulated depreciation). This investment in capital assets included the sewer system, administrative buildings and equipment.

Major capital asset events during the current fiscal year included the following:

- * Extension of sewer system to south shore.
- * Additional lagoon cell.

Additional information on the District's capital assets can be found in the notes to the financial statement.

Long-term Debt

At the end of the current year, the District had total debt outstanding of \$2,066,674. The debt represents bonds secured solely by specified revenue sources, i.e. revenue bonds.

Bear Lake Special Serevice District's Outstanding Debt

| | |
|---------------|----------------|
| DEQ Notes | 1,910,800 |
| Revenue Bonds | 25,000 |
| CIB Notes | <u>130,874</u> |
| Total | 2,066,674 |

The District receives its revenue bonds and DEQ note through the State of Utah.

Additional information on the District's long-term debt can be found in the notes to the financial statement.

Request for Information

This financial report is designed to provide general overview of the Bear Lake Special Service District finances for all those with an interest. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the office of the District in care of the Board Memebers at PO Box 220, Garden City, Utah 84028.

BEAR LAKE SPECIAL SERVICE DISTRICT
BALANCE SHEET

December 31, 2005

| <u>ASSETS</u> | <u>2005</u> |
|------------------------------------|------------------|
| <u>Current Assets</u> | |
| Cash and Investments | 805,598 |
| Prepaid Expense | - |
| Accounts Receivable | |
| Due from Customers Net | <u>96,725</u> |
| Total Current Assets | <u>902,323</u> |
| <u>Capital Assets</u> | |
| Building (Net of Depreciation) | 48,965 |
| Equipment (Net of Depreciation) | 49,532 |
| Land and Easement | 159,110 |
| Sewer facility (Net Depreciation) | <u>3,435,192</u> |
| Total Capital Assets | <u>3,692,799</u> |
| Total Assets | <u>4,595,122</u> |
| <u>LIABILITIES AND NET ASSETS</u> | |
| <u>Current Liabilities</u> | |
| Accounts Payable | 6,158 |
| Accrued Bond Interest | <u>3,557</u> |
| Total Current Liabilities | <u>9,715</u> |
| <u>Long Term Liabilities</u> | |
| Note Payable - CIB | 130,874 |
| Note Payable - DEQ | 1,910,800 |
| Bonds Payable | <u>25,000</u> |
| Total Long - Term Liabilities | <u>2,066,674</u> |
| Total Liabilities | <u>2,076,389</u> |
| <u>Net Assets</u> | |
| Invested in Capital Assets, Net of | |
| Related Debt | 1,626,125 |
| Restricted | 134,217 |
| Unrestricted | <u>758,391</u> |
| Net Assets | <u>2,518,733</u> |
| Total Liabilities & | |
| Net Assets | <u>4,595,122</u> |

* The notes to the Financial Statements are an integral part of this statement.

BEAR LAKE SPECIAL SERVICE DISTRICT
STATEMENT OF REVENUES & EXPENDITURES
AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2005

| | |
|---|------------------|
| | <u>2005</u> |
| <u>Operating Revenue</u> | |
| Hook On, Debt Retirement & Operation Charges | 453,325 |
| Other | <u>11,220</u> |
| Total Operating Revenue | <u>464,545</u> |
| <u>Operating Expenditures</u> | |
| Management | 14,898 |
| Legal and Accounting | 3,285 |
| Operation | 216,393 |
| Depreciation | <u>214,474</u> |
| Total Operating Expenditures | <u>449,050</u> |
| Operating Income | <u>15,495</u> |
| <u>Non-Operating Revenues (Expenses)</u> | |
| Interest Revenue | 18,079 |
| Interest Expense | (8,332) |
| Impact Fees | <u>112,442</u> |
| Total Non-Operating Expenditures | |
| Revenues (Expenses) | <u>122,189</u> |
| Net Income (Loss) | 137,684 |
| <u>Net Assets</u> | |
| Beginning of Year | <u>2,381,049</u> |
| End of Year | <u>2,518,733</u> |

*The Notes to the Financial Statements are an integral part of this Statement.

BEAR LAKE SPECIAL SERVICE DISTRICT
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2005

| | |
|--|-----------------|
| | <u>2005</u> |
| Cash flows from Operating Activities: | |
| Cash received from customers | 461,073 |
| Cash payments to supplier's for goods and services | (126,409) |
| Cash Payments to employees for Services | (106,630) |
| Net Cash provided by operating activities | <u>228,034</u> |
| Cash flows from noncapital financing activities: | |
| Operating transfers from other funds(net) | <u>-0-</u> |
| Net Cash Provided by non capital financing activities | <u>-0-</u> |
| Cash flows from capital and related financing activities: | |
| Impact Fees | 112,442 |
| Bond Payable | 140,605 |
| Principal paid | (168,251) |
| Interest and fiscal charges paid | (9,892) |
| Purchase of Capital Assets | <u>(80,687)</u> |
| Net cash used for capital and related financing activities | <u>(5,783)</u> |
| Cash flows from investing activities: | |
| Interest on investments | <u>18,079</u> |
| Net cash from investing activities | <u>18,079</u> |
| Net Increase in cash and cash equivalents | <u>240,330</u> |
| Cash and cash equivalents Beginning of year | <u>565,268</u> |
| End of year | <u>805,598</u> |

*The accompanying notes are an integral part of this statement.

BEAR LAKE SPECIAL SERVICE DISTRICT
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2005

Reconciliation of operating income
to net cash provided by operating activities:

| | <u>2005</u> |
|--|----------------|
| Operating Income (loss) | <u>15,495</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities. | |
| Depreciation | 214,474 |
| Changes in assets and liabilities: | |
| (Increase) Decrease in Accounts Receivable | (3,351) |
| Increase (Decrease) in Accounts Payable | <u>1,416</u> |
| Total Adjustments | <u>212,539</u> |
| Net cash provided by operating activities | <u>228,034</u> |

Non cash investing, capital and financing activities:
As of the balance sheet date, there were no noncash
investing, capital, or financing activities to report.

Disclosure of Accounting policy:
For purposes of the statement of cash flows, the sewer
fund consider all highly liquid investments
(including restricted assets) to be cash equivalents.
cash equivalents are comprised of cash and certificates of
deposit.

*The accompanying notes are an integral part of this statement.

BEAR LAKE SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENT

December 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Bear Lake Special Service District is organized and operates under the provisions of the Utah Constitution. The accounting policies and practices of the District conform to generally accepted accounting principles as applicable to local governments, as noted hereafter. The District is a component unit of Rich County, Utah as required by Utah law. The District operates independently of the County with a board of five directors governing the affairs of the District. This report includes all funds and account groups of the District. It includes all activities considered to be a part of the District.

B. Basis of Presentation

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate legal and accounting entity. As the District operates a Proprietary Type operation, the funds of District are accounted for as follows:

1. Enterprise Fund

Enterprise Funds are used to account for operations that are financed and operate in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. Basis of Accounting

The District follows accounting principles generally accepted in the United States of America applicable to a governmental entity, including pronouncements of the Governmental Accounting Standards Board ("GASB"). The District has elected not to follow all Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions and Accounting Research Bulletins ("ARB"), issued after November 30, 1989, in accordance with GASB Statement No. 20. The records of the District are maintained on the accrual basis of accounting, with a measurement focus on net income determination and capital maintenance. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

The District follows the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. These statements require governmental entities to provide additional accrual-basis statements and schedules to better communicate the financial status of the governmental entity.

BEAR LAKE SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENT CONTINUED

December 31, 2005

C. Budgets and Budgetary Accounting

The District follows those budget procedures prescribed by the Utah Constitution and related rules and regulations prescribed by the State of Utah State Tax Commission. Procedures followed include:

- (1) Formulation of subsequent year budget requirements by internal District officers and personnel.
- (2) Perusal of formulated budgets by the Board of Directors and Staff.
- (3) Presentation of preliminary and final budget requirements in formal news media of the county, and
- (4) Open hearings to permit taxpayer input before such budgets are formally adopted.

The District has placed detailed emphasis on the budgeting for expenditures against budget revenues. Subsequent control of budgets following adoption is accomplished through a budget - expenditures control system with interim status management reports.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The District considers investments in highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

2. Supplies Inventory

Inventory of supplies is very small and therefore is expensed when purchased.

3. Property, Plant, and Equipment

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives (in years):

| | |
|----------------------------|------|
| Buildings and improvements | 5-50 |
| Machinery and equipment | 3-20 |
| Transportation equipment | 3-7 |
| Furniture and fixtures | 3-20 |

No depreciation is provided on construction in progress until the asset is placed in service.

4. Capital Contributions

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital contributions are recorded as revenues.

BEAR LAKE SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENT CONTINUED

December 31, 2005

5. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

6. Classification of Revenue

Operating revenues include activities that have the characteristics of exchange transactions such as water sales revenue.

Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34. Examples of non-operating revenues would be property tax revenues, interest income, and accounts collected as fees, gain or loss on sale of assets.

II. DETAILED NOTES

A. Capital Assets

Completed assets were capitalized at cost on June 30, 1986. Improvements have been added since that date. The building and sewer facility are being depreciated on a straight line basis over an estimated life of (30) thirty years. All other assets are being depreciated on a straight line basis over their estimated useful lives of (3) three to (10) ten years.

The following schedule sets forth the balances in fixed assets and accumulated depreciation.

| Fixed Assets | Cost | Depreciation To Date | Net |
|-------------------------------|------------------|-------------------------|------------------|
| Vehicles | 75,714 | 57,549 | 18,165 |
| Equipment | <u>146,149</u> | <u>114,782</u> | <u>31,367</u> |
| | <u>221,863</u> | <u>172,331</u> | <u>49,532</u> |
| Building | <u>137,079</u> | <u>88,114</u> | <u>48,965</u> |
| Interceptor System | 4,320,408 | 1,738,377 | 2,582,031 |
| Collector System | 831,906 | 511,258 | 320,648 |
| Engineering/ Architectural | <u>889,338</u> | <u>356,825</u> | <u>532,513</u> |
| | <u>6,041,652</u> | <u>2,606,460</u> | <u>3,435,192</u> |
| Land and Easements | <u>159,110</u> | <u>-0-</u> | <u>159,110</u> |
| Total Fixed Assets | <u>6,559,704</u> | <u>2,866,905</u> | <u>3,692,799</u> |

**BEAR LAKE SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENT CONTINUED**

December 31, 2005

B. Accounts Receivable

Accounts Receivable represent amounts billed through December 31, 2004 for sewer service and monthly debt retirement fees. All homes and businesses in the district are required to hook on to the sewer. A reserve had been set up for doubtful accounts in the amount of \$5,700. However, all accounts are paid within one year or they are put on the county tax rolls. There are virtually no write offs of accounts receivable. Therefore, the reserve was eliminated as of December 31, 1999.

C. Notes Payable and Bonded Debt

1. Changes in Notes Payable and Bonded Debt

| | <u>Beginning Balance</u> | <u>Principal Paid</u> | <u>New Debt</u> | <u>Ending Balance</u> |
|-------------|------------------------------|---------------------------|---------------------|---------------------------|
| DEQ Note | 1,859,394.91 | 89,200.00 | 140,605.09 | 1,910,800.00 |
| CIB 250,000 | 139,925.52 | 9,051.24 | | 130,874.28 |
| Bond | <u>95,000.00</u> | <u>70,000.00</u> | | <u>25,000.00</u> |
| Total | <u>2,094,320.43</u> | <u>168,251.24</u> | <u>140,605.09</u> | <u>2,066,674.28</u> |

2. CIB 250,000.00 Note

The Bear Lake Special Service District obtained two loans from the State of Utah, Department of Community and Economic Development. One was for \$150,000 and was paid in full during 1996.

The second loan of \$250,000 is to be paid at the rate of \$15,348 per year, including interest at the rate of 4 1/2 percent. Payback of this loan also began on July 1, 1987. Accrued interest payable at 12-31-05 was \$2,944.67

| <u>Due Date</u> | <u>Scheduled Principle</u> | <u>Scheduled Interest</u> | <u>Scheduled Payment</u> | <u>Principle Balance</u> |
|---|--------------------------------|-------------------------------|------------------------------|------------------------------|
| | | | | 130,874.28 |
| 07/01/06 | 9,458.55 | 5,889.34 | 15,347.89 | 121,415.73 |
| 07/01/07 | 9,884.18 | 5,463.71 | 15,347.89 | 111,531.55 |
| 07/01/08 | 10,315.22 | 5,032.67 | 15,347.89 | 101,216.33 |
| 07/01/09 | 10,793.16 | 4,554.73 | 15,347.89 | 90,423.17 |
| 07/01/10 | 11,278.85 | 4,069.04 | 15,347.89 | 79,144.32 |
| Balance of Payments Thru 07/01/16 | <u>79,144.32</u> | <u>19,227.74</u> | <u>98,372.06</u> | |
| | <u>130,874.28</u> | <u>44,237.23</u> | <u>175,111.51</u> | <u>-</u> |

BEAR LAKE SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENT CONTINUED

December 31, 2005

3. General Obligation Bond

The Bear Lake Special Service District issued Series 1986 General Obligation Sewer Bonds on December 15, 1986. These bonds were paid off in 1993 when the Service District rebonded. Obligations of the 1993 bonds are shown below. Accrued interest payable on these bonds at 12-31-05 was \$612.50.

| <u>Due Date</u> | <u>Principal</u> | <u>Interest Rate</u> | <u>Total Interest Payable by Year</u> |
|-----------------|------------------|----------------------|---------------------------------------|
| 2-15-2006 | <u>25,000</u> | 5.60 | <u>700.00</u> |
| Total | 25,000 | | 700.00 |

Interest is being paid semi-annually. All bonds were issued in series of \$5,000.

4. DEQ Note

The District obtained approval for a loan of \$2,230,000 from the Utah Water Quality Board on September 24, 2001, for construction of wastewater system improvements that will extend services to the east side of Bear Lake. The loan is to be paid back over 25 years beginning February 1, 2005, at zero percent interest as shown below. The District has received \$2,000,000.00 of the total loan amount as of 12-31-05.

| <u>Due Date</u> | <u>Principal Due</u> | <u>Payment</u> |
|-----------------|----------------------|----------------|
| 1 Feb 06 | 2,140,800 | 89,200 |
| 1 Feb 07 | 2,051,600 | 89,200 |
| 1 Feb 08 | 1,962,400 | 89,200 |
| 1 Feb 09 | 1,873,200 | 89,200 |
| 1 Feb 10 | <u>1,784,000</u> | <u>89,200</u> |
| Thereafter | 1,694,800 | 1,694,800 |

D. Defined Benefit Pension Plan

Plan Description. The District contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) which is a cost sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

BEAR LAKE SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS CONTINUED

December 31, 2005

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems Plans. A copy of the report may be obtained by writing to the Utah Retirement System, 540 East 200 S. Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members are required to contribute a percent of their covered salary (all or part may be paid by the employer) to the respective systems to which they belong. Bear Lake Special Service District is required to contribute 11.09% of covered salary to the Noncontributory System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Bear Lake Special Service District's contributions to the Noncontributory System for the years ending December 31, 2005, 2004, and 2003 respectively were; \$8,661.01, \$7,055.42, and \$4,383.92. The contributions were equal to the required contributions for each year.

E. Deposits and Investments

All cash amounts used for checking are deposited in Zions First National Bank in the Randolph Utah Branch and are covered by FDIC Insurance. All other cash is deposited with the Utah State Treasurer in Salt Lake City. The risk on these cash deposits and investments is minimal to the District.

| <u>Depository</u> | <u>Balance Per Books</u> | <u>Balance Per Bank</u> |
|--------------------------|----------------------------------|---------------------------------|
| Zion First National Bank | 75,966.51 | 70,939.67 |
| Cash on Hand | - | - |
| Utah State Treasurer | <u>729,631.30</u> | <u>729,631.30</u> |
| | <u>805,597.81</u> | <u>800,570.97</u> |

F. Subsequent Events

There are no known subsequent events that will have a material impact on the operation of the District.

COMPLIANCE AND INTERNAL CONTROL

GARY H. TEUSCHER
Certified Public Accountant
110 N 8th Street
Montpelier, Idaho 83254

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Bear Lake Special Service District
Garden City, Utah 84028

I have audited the financial statements of the Bear Lake Special Service District (District) for the year ended December 31, 2005 and have issued my report dated March 15, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of the District in a separate letter dated March 15, 2006.

This report is intended solely for the information and use of the District management and the State of Utah Office of the State Auditor, and is not intended to be and should not be used by any other than these specified parties.



March 15, 2006

GARY H. TEUSCHER
Certified Public Accountant
110 N 8th Street
Montpelier, Idaho 83254

**INDEPENDENT AUDITOR'S REPORT ON
STATE OF UTAH LEGAL COMPLIANCE**

Board of Directors
Bear Lake Special Service District
Garden City, UT 84028

I have audited the financial statements of the Bear Lake Special Service District for the year ended December 31, 2005 and have issued my report thereon dated March 15, 2006. My audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Property Tax
- Other Compliance Requirements

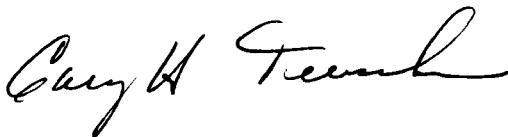
The District did not receive any major or nonmajor State grants during the year ended December 31, 2005.

The management of the District is responsible for the District's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In my opinion, the District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.



March 15, 2006

GARY H. TEUSCHER
Certified Public Accountant
Medical Arts Building
Montpelier, Idaho 83254

Board of Directors
Bear Lake Special Service District
Garden City, UT 84028

In planning and performing my audit of the financial statements of the Bear Lake Special Service District for the year ended December 31, 2005, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. During the performance of my audit I noted no matters involving the internal control structure and its operation that I considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the Bear Lake Special Service District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, I noted no reportable conditions that could be believed to be material weaknesses.


I did, however, note certain matters involving the internal control structure and its operation that the District should consider.

The District employs only one executive assistant who has the following duties: 1) open the mail 2) make deposits 3) write out the checks 4) reconcile the bank account 5) posts the checks and payroll reports to the computer along with receipts and 6) all other duties of a clerk performing the accounting and payroll functions. These functions would be separated in a governmental agency that employs more secretaries or which has various departments to complete its accounting and payroll functions.

However, as there is one other member of management in the office, the district has assigned oversight of various of these duties to him. In addition, the members of the Board of Directors, should review the bank reconciliations each month.

It is in the interest of Management and the Board of Directors to do everything possible to safeguard assets of the District. This can be accomplished by continuing efforts by all concerned to segregate duties, combine duties, and assign duties to members of management and or to members of the Board in such a way that errors and irregularities would be detected, and corrected by employees of the District.

* - This report is intended solely for the information and use of the District management and the State of Utah Office of the State Auditor, and is not intended to be and should not be used by any other than these specified parties.



Gary H. Teuscher
Certified Public Accountant

March 15, 2006